

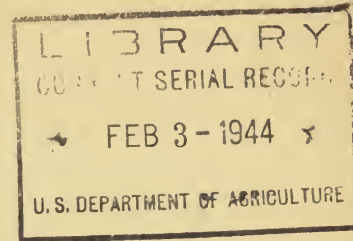
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WAR FOOD ADMINISTRATION  
FOOD DISTRIBUTION ADMINISTRATION  
WASHINGTON 25, D. C.



COMPLIANCE BRANCH MEMORANDUM NO. 1  
(Revised December 17, 1943)

Subject: Objectives and Functions of the Compliance Branch

In accordance with Memorandum No. 1, Revision 1, issued by the Director of Food Distribution on November 30, 1943, there is established a Compliance Branch Memorandum series. This series will provide a means of communication between Washington and the field personnel. The first memorandum relates to the OBJECTIVES and FUNCTIONS of the Branch.

Revision 1 of Director's Memorandum No. 2, issued December 1, 1943, entitled "Organization of the Food Distribution Administration" defines the functions of the Compliance Branch as follows:

"To prevent speculation, profiteering, hoarding, and fraud in all phases of the food distribution program of the Administration and for this purpose, to conduct investigations of processing and marketing conditions and methods; to administer the Commodity Exchange Act, as amended; to investigate and report on violations of agreements, orders, and regulations which are issued to effectuate the marketing, purchase, and other programs of the Administration; to perform other investigative and related services as required; to devise and install accounting systems for agencies cooperating in the Administration's programs; to audit the accounts of cooperating agencies; to exercise powers of inspection and make audits of books and records of war contractors."

Director's Memorandum No. 2, Supplement 4, consolidated the former Investigation Division of AMA and the Commodity Exchange Branch of AMA into the FDA Compliance Branch.

BRANCH ACTIVITIES

The activities of the Compliance Branch may be grouped into five principal categories: (1) enforcement of food distribution orders; (2) investigation, and collaboration with the Office of the Solicitor in the prosecution of profiteering and fraud in food purchases and distribution; (3) cost analysis and determination of allowable items of cost and fair-profit allowances; (4) installation and periodic audit of accounting

systems of participants in marketing agreements; and (5) administration of the Commodity Exchange Act.

- (1) Enforcement of food distribution orders involves the use of investigators and accountants to determine whether order provisions, such as restrictions on processing or use, and set-aside requirements, have been violated, and to compile evidence for judicial or administrative proceedings where violations are found. Review of reports and recommendation for disposition of cases, and review of dockets subsequent to hearings in administrative proceedings are also functions performed in connection with food order enforcement.
- (2) The investigation and collaboration with the Office of the Solicitor in the prosecution of profiteering and fraud in food purchases and distribution may be divided into two classes, one relating to profiteering, the other to fraud. The detection of profiteering is primarily an accounting problem. It requires the analysis of purchases and the auditing of books and records of vendors. The investigation and prosecution of fraud in connection with food purchases and distribution is one of the primary and most important activities of the Branch. Every case of apparent or alleged fraud is thoroughly investigated and appropriate action recommended.
- (3) Cost analysis and determination of allowable items of cost and fair-profit allowances are made in order to ascertain whether food costs to the Government are reasonable under all conditions. The basic data are compiled directly from the books and records of food companies by a field staff of cost accountants, are reviewed by cost analysts in the Washington office, and are utilized in obtaining adjustments in vendors' contracts, and in establishing prices for new procurement.
- (4) Installation and periodic audit of accounting systems of participants in marketing agreements is a technical accounting function of considerable magnitude. There are approximately 40 marketing agreements and orders sponsored by the Dairy and Poultry Branch and six sponsored by the Fruit and Vegetable Branch. These agreements in effect, regulate the market in such a way that producers' prices are maintained at reasonable levels. The farm value of commodities sold under marketing agreement programs approximates 400 million dollars annually. Inasmuch as each marketing agreement places certain obligations and duties upon the participants, it is necessary for accountants of the Compliance Branch to install and make periodic audits of the accounting systems for the purpose of assuring compliance.
- (5) Administration of the Commodity Exchange Act has been carried on by the Department of Agriculture since 1922. It was assigned to the Compliance Branch on January 13, 1943 when the Commodity Exchange Branch and the



### 3--Compliance Branch Memorandum No. 1 (Revised)

Investigation Division were merged into the Compliance Branch. The purpose of the Commodity Exchange Act is to protect commerce in certain agricultural commodities through prevention of abuses of the futures trading system.

All commodity exchanges conducting trading in commodities under the act are designated "contract markets" upon complying with stipulated conditions; all futures commission merchants and floor brokers are registered; when necessary, limitations are placed upon the size of speculative trades and open commitments; certain trading practices (bucketing, wash sales, cross trades, etc.) and certain trading operations (manipulation, fraud, deceit, etc.) are suppressed; proper handling of customers' funds is required; delivery practices and procedures are regulated; and information concerning commodity exchange operations and marketing conditions is compiled and published.

#### : DIVISION FUNCTIONS

The Compliance Branch consists of the Office of the Chief and five divisions, namely, Accounts and Audits; Investigation; Review and Proceedings; Cost Analysis and Development; and Commodity Exchange. The scope and functions of each are discussed below.

#### Accounts and Audits Division

The functions of the Accounts and Audits Division are:

To formulate, interpret, and apply accounting policies, and render instructions and advisory opinions in connection with technical and controversial auditing and accounting questions which arise in the administration of FDA activities; to examine books and records and conduct audits in connection with alleged or apparent violations; to audit the books and records of war contractors, of vendors of Lend-Lease supplies, Section 32, Territorial Emergency Programs, Red Cross, etc., excepting those relating to legality and correctness of actual payments of Federal funds; to devise and install accounting systems for agencies cooperating in the Administration's programs, excepting diversion agencies; and to appear as expert witnesses in administrative and court proceedings.

The Accounts and Audits Division is an operating division planning, directing and supervising the work of a large corps of accountants located in all parts of the United States. In its broader aspects, the Accounts and Audits Division affords a highly specialized accounting and auditing service for the Director and for the commodity branches in which is lodged authority over food purchases. This service also includes the compilation

and interpretation of financial data as an aid in applying and enforcing the administrative policies of the Branch and in the prosecution of violations in administrative and court cases as well as the audit of books and records of industry members in connection with food distribution orders.

While all persons subject to food order regulation or involved in purchase or other controls related to the war food program may be subjected to accounting scrutiny, the accounting and auditing work to be performed depends largely upon the personnel available for such work. With the volume involving billions of dollars of values and violators ranging from the uninformed citizen to the adroit criminal, selection must be made in the basic interests of the war food program as a whole and the objectives of individual programs. First considerations are directed to allegations involving apparent fraud or profiteering.

#### Investigation Division

The functions of the Investigation Division are:

To direct periodic and special investigations of all programs and activities of the Administration, including the investigation of alleged or apparent malfeasance or misfeasance on the part of any firm or individual dealing with the Administration; to investigate and report upon violations of marketing agreements, food orders, and regulations issued to effectuate the marketing, purchase, distribution, and other programs of the Administration; to consult with the officials in charge of the program or operation affected concerning the nature and scope of complaints assigned for investigation; to provide technical guidance and direction to field investigators, and to develop and disseminate new and recognized techniques in the field of investigation; to perform the final technical review of investigation reports; to collaborate with the Office of the Solicitor in the prosecution of violations; to appear as witnesses in administrative hearings and criminal and civil cases; and to prepare currently statistical summaries of investigations.

The Investigation Division covers all investigative phases of compliance activities. These investigations relate to fraud, embezzlement, theft, profiteering, hoarding, etc., in connection with food orders, marketing agreements, and rules and regulations which are issued to effectuate the marketing, purchase, and other programs of the Administration. If on the basis of the investigative findings, administrative or court action appears desirable, it is the further purpose of the division to collaborate with the Office of the Solicitor and to assist in such proceedings.

The Investigation Division performs the final technical review of investigation reports received from the field. This review looks to form, or correct reporting, and to substance, or sufficiency of evidence or information. Not infrequently it is found in review that constructive criticism designed for the benefit of the division's field staff can be supplied to its agents. Close contacts with order administrators and other technically qualified personnel in all lines of food distribution enable the division to disseminate valuable information to field employees. This work is carried on through both formal and informal training schools which are held in the field offices under the direction of Washington or field office supervisory personnel.

#### Review and Proceedings Division

The functions of the Review and Proceedings Division are:

To prepare and put into operation enforcement policies and procedures; to provide general leadership, direction, and advice in order to insure the efficient, proper and uniform application of such policies and procedures in all regions; to maintain liaison with the Office of the Solicitor, order administrators, and chiefs of the commodity branches in matters pertaining to preparation and enforcement of food orders; to review and act upon regional compliance reports and recommendations for administrative action, and civil or criminal action in cases of national importance; to recommend formal investigations.

The objective of the Review and Proceedings Division is to secure uniformity of procedure and decisions among the five regional offices of the Administration. It has responsibility in Washington for the coordination of compliance policies and procedures in all regional offices. This division will keep the regional compliance divisions informed on changes and new developments in compliance practice. It will endeavor to encourage uniformity of procedure in substantive interpretation, in sanctions and penalties, and in standards of prosecution. It will review all current cases referred to Washington for action or further recommendation. It will aid in maintaining liaison with the Solicitor's Office, the order administrators, and the Regional Compliance Divisions.

#### Cost Analysis and Development Division

The functions of the Cost Analysis and Development Division are:

In order to prevent profiteering and to lay a basis for renegotiation of contracts, to make analytical and interpretative examinations and surveys on an industry-wide commodity or geographical basis of



detailed accounting data and reports of suppliers of Lend-Lease and other materials for the purpose of determining allowable items of cost in FDA's future bargaining with such suppliers; in performing this function to compile and analyze unit costs; to ascertain and determine admissible costs; to examine profits and charges; to outline and prescribe basic principles governing the determination of costs; to review and audit reports and other accounting and statistical data to determine the reasonableness of costs to the Government; to obtain a comparative appraisal of profits on the various commodities purchased by the Administration.

The Cost Analysis and Development Division is a technical division engaged in compiling, analyzing and determining costs and profits of commodities purchased by the Administration. It operates through a corps of cost accountants in Washington, and its field work is carried on by its own cost accountants when available, accountants of the Compliance divisions of the regional offices, and accountants of cooperating governmental agencies.

The findings and analyses of the Division are made available to the Office of the Director, designated price review officials, and to the commodity divisions as a guide in the negotiations of new contracts. They are also available as criteria for the establishment of accounting principles, standards, and procedures for adoption by vendors to the Food Distribution Administration. Naturally whenever the findings disclose profiteering or excessive charges against the Government, they are used as a basis for appropriate administrative or court action.

#### Commodity Exchange Division

The functions of the Commodity Exchange Division are:

To enforce the provisions of the Commodity Exchange Act, as amended; to supervise all futures transactions in regulated commodities; to designate contract markets and register futures commission merchants and floor brokers; to limit the size of speculative trades and open commitments; to eliminate fictitious and fraudulent transactions; to prevent manipulation and corners; to prevent dissemination of false and misleading market information; to prevent misuse of customers' funds; to regulate delivery practices and procedures; to compile and publish information concerning operations on commodity exchanges and marketing conditions.

The Commodity Exchange Division exercises immediate supervision of the administration of the Commodity Exchange Act. The objective of this act is to protect and facilitate commerce in the Nation's major agricultural commodities dealt in under futures contracts on organized commodity exchanges. The division embraces five sections which, with their respective functions, are shown below.



Economic Section. The primary function of this section is to plan and conduct studies pertaining to the broad economic aspects of futures trading. Such studies not only provide information and analyses for general guidance in the formation of basic policy as well as with respect to current situations, but are directed also toward the enforcement of specific provisions of the Commodity Exchange Act, such as the determination and establishment of limits on volume of trading and market positions. The work of this section includes the analysis of current price movements, the conduct of price relationship studies, the analysis of economic aspects of futures trading, and the preparation for publication of information concerning futures trading.

Enforcement Section. This section investigates alleged or apparent violations of the act and trade practices involving market abuses, and after all necessary facts are obtained, prepares recommendations for the imposition of administrative or criminal sanctions under the Commodity Exchange Act. With respect to cases submitted to the Solicitor's Office, this section furnishes all necessary assistance in the procurement of information desired by the Solicitor and in the preparation of complaints and the conduct of administrative hearings. The section also supplies (through the Solicitor's Office) such information as may be requested by the Department of Justice incident to the prosecution of criminal cases. The section conducts investigations of commodity market floor trading and functions as a source of information in the field of commodity trade practice.

License and Rules Section. This section receives and considers applications of commodity exchanges for designation as contract markets and conducts investigations to determine compliance by applicants with the statutory requirements both precedent and subsequent to designation. It reviews contract-market rules and regulations and changes therein adopted or proposed by exchanges, to determine whether they conflict with the statutory requirements or appear prejudicial to the economic functioning of the futures trading system, and confers with contract-market officials concerning the need or desirability of adoption or amendment of exchange rules to improve trading facilities or services. This section also formulates regulations prescribing data required of futures commission merchants and floor brokers incident to their annual registration under the Commodity Exchange Act, receives and examines applications for such registrations, issues registrations, considers questions involving the applicability of the registration requirements in specific cases, and maintains comprehensive records pertaining to registrants.

Segregated Funds Section. This section conducts examinations of the books and records of futures commission merchants to determine whether segregation of commodity customers' funds is maintained in compliance with the requirements of the statute, issues formal calls to commission merchants for reports showing status of segregated funds, analyzes financial statements submitted by commission merchants, conducts position audits of

8--Compliance Branch Memorandum No. 1 (Revised)

commodity merchants, dealers, processors, and other large traders to see that futures operations are correctly reported, and assists in investigations of law violations and trade practice surveys.

Trading Section. This section compiles, analyzes, and summarizes all statistical and factual material relating to current activities on spot and futures markets; prepares summary and statistical reports for administrative use, reviews and scrutinizes trading operations on futures and spot markets, reviews trading and positions of large traders, compiles spot and futures prices, provides a continuous source of up-to-the-minute reports on cash and futures prices and market news, tabulates, compiles and publishes volume of trading, open contracts, and deliveries reported on futures markets; compiles and publishes unfixed call sales reported by merchants, tabulates factual material made available by investigations, compiles data necessary for the enforcement of trading and position limits, compiles and reviews information on current futures and selected cash commodity transactions and maintains a quotation and ticker service.

Chief,  
Compliance Branch

B-157